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Order 2000-11-24



UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
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U.S.-CHINA AIR SERVICES (2001)

Docket OST-99-6323-2973

ORDER TO SHOW CAUSE

Summary

By this order we tentatively select United Parcel Service Company (UPS) to serve the U.S.-China market and allocate it six weekly frequencies for its U.S.-China all-cargo services. We also tentatively allocate two weekly frequencies to United Air Lines, Inc., and one each to Northwest Airlines, Inc., and to Federal Express Corporation to expand their U.S.-China services.

We will afford interested parties 21 calendar days to file objections to our tentative decision and 10 calendar days to file any answers to such objections.

Background

Air services between the United States and China are not open to service by all carriers. For many years the United States has been limited to service by three U.S. carriers, two passenger/cargo (*i.e.*, "combination") carriers, United and Northwest, and one all-cargo carrier, Federal Express Corporation. The operations of these carriers have been limited in terms of the frequencies that they can provide.

On April 8, 1999, the United States and the People's Republic of China signed a Protocol amending the U.S.-China Air Transport Services Agreement to provide for significant expansion of services between the countries. First, the agreement made possible an immediate increase in the level of services that incumbent carriers could operate in the market, providing for a total of 17 additional weekly flights, above the 27 weekly flights then authorized. By Order 99-8-9, the Department allocated those frequencies among the three incumbent carriers. As a result of those allocations, United is authorized to operate

a total of 19 weekly flights, Northwest, 15 weekly flights, and Federal Express, 10 weekly flights.¹

Second, the new agreement provides the opportunity to designate a fourth airline to serve the U.S.-China market effective April 1, 2001, and provides for an additional 10 weekly frequencies that would be available for use by the four airlines that would then be designated to serve the market.

By Notice dated October 6, 1999, the Department indicated that the new designation and the ten additional frequencies described above would be the subject of this proceeding. By Order 2000-1-21, the Department instituted the *U.S.-China Air Services (2001)* case and set forth a procedural schedule and a set of evidentiary requirements for the submission of pleadings needed by the Department to make its decision in this case.² Under the procedural schedule established by the Department, Direct Exhibits were due February 29, 2000, Rebuttal Exhibits were due April 4, 2000, and Briefs were due May 2, 2000.³

The China Market

A. Passenger

In terms of passenger services between the United States and other countries of the world, China is the 26th largest U.S.-world passenger market and is the 6th largest U.S.-Asia market. For the twelve months ending June 1999, the market generated approximately 493,000 O&D passengers, with 298,000 traveling between the United States and Beijing and 161,000 between the United States and Shanghai.⁴ The Department's T-100 data show that for this same period, Chinese carriers transported approximately 204,000 passengers between the countries.⁵ Between 1994 and June 1999, traffic in the market has grown at an average annual rate of 20% per year.⁶

United and Northwest currently operate 32 weekly combination service flights between the U.S. and China. Of these, 18 are operated on a nonstop basis and 14 are operated via Tokyo. United operates a daily nonstop flight between San Francisco and Beijing, five weekly nonstop flights between San Francisco and Shanghai, and a daily one-stop flight between Los Angeles and Shanghai via Tokyo. Northwest operates daily service between

¹ The agreement also expanded the opportunities for U.S. and Chinese carriers to operate code-share services in the U.S.-China market. Under the code-share provisions of the agreement, U.S. and Chinese airlines not designated by their countries to operate flights between the countries may offer services in the market by selling seats on an airline that is designated to operate flights in the market. Designated U.S. and Chinese airlines may also operate code-share services.

² We resolved various petitions for reconsideration of our instituting order by Order 2000-2-29.

³ The Department's instituting order had initially established March 28, 2000 as the due date for Rebuttal Exhibits and April 25, 2000 as the due date for Briefs. By Order 2000-3-17, the dates were extended to April 4 and May 2, respectively.

⁴ DOT IR-2A and 2B. 34,000 passengers traveled between the United States and other cities in China.

⁵ DOT IR-1A.

⁶ DOT IR-2A and 2B; Exhibit DL-308 and Exhibit AA-301.

Detroit and Beijing (four nonstop flights and three one-stop flights) and six weekly flights between Detroit and Shanghai (two nonstop flights and four one-stop flights). Three Chinese carriers serve the market, collectively operating 20 weekly flights. China Eastern operates a daily flight from Los Angeles that serves both Beijing and Shanghai. Air China operates nine weekly flights with five flights from San Francisco and four from Los Angeles. Air China's flights from San Francisco also serve both Beijing and Shanghai. China Southern operates four weekly nonstop flights between Los Angeles and Guangzhou, China.

In addition to these services, three U.S. carriers provide service in the U.S.-China market under code-share arrangements with Chinese carriers. Northwest has a comprehensive code-share arrangement with Air China under which both carriers are able to offer additional U.S.-China services not only on each other's flights between the U.S. and Beijing and Shanghai, but also on each other's domestic flights. Thus, Northwest is able to sell seats on Air China's U.S.-China flights and to offer its passengers services to other cities in China beyond Beijing and Shanghai on Air China's domestic flights. Similarly, Air China can sell seats on Northwest's U.S.-China flights and offer its passengers service to points within the U.S. using Northwest's domestic flights from Detroit, Los Angeles, and San Francisco. American Airlines has a code-share arrangement with China Eastern and is able to offer service in the Chinese market on flights operated by China Eastern from Los Angeles. Delta Air Lines has a code-share arrangement with China Southern and can offer service between the U.S. and China on flights operated by China Southern between Los Angeles and Guangzhou. Both carriers can expand their services with their Chinese partners to include through service to points within China.

B. Cargo

The record in this case indicates that China is the second largest U.S.-overseas trading partner⁷ and is also the second largest U.S.-Asia all-cargo market. For calendar year 1998, Department of Commerce data indicate that the cargo market generated approximately 300,000 tons of air cargo valued at nearly \$12 billion.⁸ During the period 1994-1998, traffic in the market grew at an average rate of 12.4% per year by weight and 21% per year by value.⁹

The market is highly directional, with approximately 80% of the traffic moving in the eastbound direction from China and 20% westbound from the United States. Products transported in the market are diverse and vary widely by weight and value. Higher value products constitute a smaller portion of traffic by weight, but a larger portion of the traffic by value, particularly westbound. Commerce Department data for calendar year 1998 indicate that high value traffic constituted 30% of U.S. export traffic in the U.S.-China market by weight and nearly 75% by value and 4% of U.S. import traffic by weight and

⁷ Exhibit NW-101 shows that Census Bureau Data indicate that U.S.-China trade was valued at \$95 billion for calendar year 1998.

⁸ Exhibits NW-401, UPS-510, UPS-601, UPS-611, and FX-413.

⁹ Exhibits UPS-509 and 510, based on Department of Commerce data.

21% by value. These data further indicate that high value traffic is growing at a greater rate than the overall traffic levels in the market. For the period 1994-1998, the average growth for high value U.S.-China export traffic was 16% by weight and 24 % by value, and high value U.S. import traffic averaged 42% growth by weight and 49% by value.¹⁰

Federal Express is the only U.S. all-cargo carrier authorized to serve the U.S.-China market directly. It currently operates 10 weekly flights between the U.S. and China with direct service to three Chinese cities--Beijing, Shanghai, and Shenzhen. All of Federal Express' flights operate via Japan. Federal Express' flights also serve its major hub in Memphis, as well as national/regional hubs and sort centers at Anchorage, San Francisco/Oakland, Newark, and Chicago. In addition, Northwest has inaugurated two weekly all-cargo flights to Shanghai via Tokyo, with service from Anchorage, Chicago, San Francisco, and Seattle. Chinese airlines also serve the all-cargo market. At the time we instituted this proceeding, Chinese carriers were operating seven weekly all-cargo flights. They have since increased their services to thirteen weekly flights from Anchorage, with service also to Los Angeles, Seattle, Chicago, and New York.¹¹ This represents nearly a 100% increase over 1999 levels.

A chart of the existing combination and all-cargo services in the market is attached as Appendix A.

Applications/Responsive Pleadings

Seven airlines filed applications for the authority at issue. Four carriers--American, Delta, UPS, and Polar Air Cargo--filed applications to be the fourth U.S. airline to serve China. In addition, the three incumbent U.S. carriers each filed applications for additional frequencies to expand their services in the China market.

American and Delta propose to operate combination service in the market and each requests allocation of all ten frequencies that are available. American would operate daily nonstop service between Chicago and Shanghai and three weekly flights between Chicago and Beijing. Both of these services would be provided with B-777 aircraft. American's Shanghai service would offer single flight number service to New York's LaGuardia Airport and its Beijing service would offer single flight number service to Dallas/Ft. Worth. Delta would operate daily nonstop service between New York and Beijing on an Atlanta-New York-Beijing-Shanghai routing and operate three weekly nonstop flights between Cincinnati and Beijing. Delta states that its Cincinnati flight would be timed to offer convenient connections to Shanghai at Beijing with Delta's New York flight. Both its New York and Cincinnati services would be operated with B-777 or MD-11 aircraft.

UPS and Polar propose to operate all-cargo service. UPS requests allocation of all ten frequencies available; Polar seeks six weekly frequencies. UPS proposes to operate six

¹⁰ Exhibits UPS-1108 and 1109.

¹¹ Exhibit UPS-R-110.

weekly nonstop flights between Anchorage and Beijing and Shanghai, and four weekly one-stop flights between Anchorage and Shanghai via Tokyo. Polar proposes to serve Beijing and Shanghai, as well as Shenzhen from Anchorage and would operate six weekly flights on a one-stop basis via Seoul, Korea.¹² Both UPS and Polar would use B-747 aircraft in their service, and both would serve other U.S. cities on their proposed flights. UPS would serve Ontario, California, on its nonstop flights and Newark on its one-stop flights. Polar would serve New York and Chicago on four weekly flights and Los Angeles and San Francisco on two weekly flights. UPS proposes to offer a variety of cargo services ranging from traditional airport-to-airport general air freight service to door-to-door express service. Polar proposes to offer primarily airport-to-airport general air freight service.

Of the three incumbent carriers, United seeks two weekly frequencies to upgrade its current nonstop San Francisco-Shanghai combination service to a daily service. United states that, beginning in April 2001, it plans to use its total frequency allocation to operate a daily nonstop flight to both Beijing and Shanghai from San Francisco and a daily nonstop flight between Chicago and Shanghai. Northwest seeks five additional weekly frequencies, two to increase its all-cargo service, one to increase its combination service in the Detroit-Shanghai market to a daily service, and two to inaugurate weekly flights between Honolulu and China via Tokyo. Federal Express seeks eight additional frequencies to increase its all-cargo services and to add six-times-a-week service to a new Chinese city, Dalian.

A summary of the applicants' proposals is attached in Appendix B.

A number of civic parties and labor parties also participated formally in this proceeding, offering support for one or more of the applicant carriers. The State of Alaska and the Anchorage and Fairbanks International Airports (Alaska) filed in support of all of the all-cargo proposals; the City of Chicago filed in support of American; the Cincinnati/Northern Kentucky parties filed in support of Delta; Wayne County, Michigan and the Detroit Metropolitan Area Wayne County Airport (Detroit) filed in support of Northwest and UPS; the City and County of San Francisco (San Francisco) filed in support of United; the International Brotherhood of Teamsters (IBT), Los Angeles World Airports, the City of Ontario (California), the Greater Rockford Airport Authority, the Regional Business Partnership (Newark), and the City of Louisville and the Louisville Regional Airport Authority (Louisville) filed in support of UPS; and the FedEx Pilots Association (FPA) filed in support of Federal Express. A chart identifying the civic parties and their areas of support is attached in Appendix C.

All of the carrier applicants and the majority of the civic and labor parties formally participated in this proceeding, filing Direct Exhibits, Rebuttal Exhibits, and Briefs under the schedule established by the Department.

¹² Polar would serve Beijing and Shenzhen in the westbound direction only. Beijing would receive service on all six weekly flights and Shenzhen would receive service on two weekly flights. Exhibit PO-101.

Position of the Parties

American and Delta argue that the Department should use the new designation opportunity to authorize additional combination service in the market. They maintain that such service would provide both passenger and cargo benefits and would produce the greatest overall public benefits by providing new nonstop service in unserved U.S.-China markets and providing needed competition with the two dominant combination carriers now serving China, United and Northwest. They maintain that the cargo market is well served by the all-cargo services of Federal Express, Northwest, UPS (via Hong Kong), Air China, and China Southern, as well as the belly cargo services of United, Northwest, and several third-country carriers.

UPS, Polar, and Northwest argue that the new designation should be used to authorize new all-cargo service. They maintain that the combination service market already has competition, is well served, and future traffic needs can be met by the existing capacity in the market without award of an additional carrier designation. On the other hand, they argue that, while the cargo market is the second largest U.S.-Asian market, it is not adequately served and already suffers from capacity shortages in the eastbound direction. They state that only one U.S. carrier provides direct all-cargo service in the market on a regular basis, that U.S. carriers have only one-third of the capacity operated in the market, and that the capacity shortages in the eastbound market force traffic onto third-country carriers, limiting U.S. carrier participation and the competitive posture of U.S. carriers in this important market. They maintain that the need for service and competition is further demonstrated by the high load factors experienced by Northwest when it recently inaugurated two all-cargo flights in the market, as well as, by the increased all-cargo services of Chinese carriers.

As to which new entrant proposal should be selected, each argues that its proposal is superior. American maintains that its proposal to offer service through its Chicago hub offers the greatest benefits because Chicago has a large number of local passengers and is geographically well positioned as a gateway for the majority of U.S.-China connecting passengers in the eastern and central regions of the United States. It also argues that its proposal to operate nonstop service to Shanghai offers greater benefits because Shanghai is the leading business center and is less well served than Beijing. The competing applicants argue that American's proposed service would be duplicative of service that United proposes to inaugurate in April 2001, that Chicago cannot support two nonstop carriers, and that American already offers online service from Chicago under its code share with China Eastern.

Delta argues that its proposal is the best because it would offer the first nonstop service in the largest U.S.-China market, New York, a market that does not now receive nonstop service by either U.S. or Chinese carriers, and because it would alleviate a critical gap in the balance of combination service in the market by providing the first service from the east coast. It further argues that its service from its Cincinnati hub will offer comparable intergateway competitive benefits for connecting passengers, as does American's

Chicago proposal. The competing applicants argue that Delta's service would substantially benefit only the local New York-China passengers and that those passengers already have numerous and convenient connections now to China. They also argue that Delta's proposed Cincinnati gateway is not well situated to support nonstop service. American further argues that Cincinnati does not compare with Chicago for benefits to connecting passengers.

Polar argues that the express cargo market is well served and competitive, and that the critical need for cargo service is in the general air freight market. It maintains that Federal Express focuses on its express business and does not offer general air freight shippers the service or price structure that would best serve this segment of the market. Polar argues, therefore, that its selection would provide critically needed service and competition in the cargo market. The competing carriers argue that Polar's service offers the least benefits because it would not operate any nonstop service in the market. UPS further argues that the U.S.-China market has many diverse transportation needs of which express cargo services are a critical component, and that Polar's proposal, which offers general air freight services only, offers only limited public benefits.

UPS argues that there is a need for a full range of competitive all-cargo service in the U.S.-China market, including the express cargo market, which now receives direct service by only one carrier, Federal Express. UPS contends that it is in the best position to provide effective cargo competition in the U.S.-China market because (a) it would serve both the express/small package and general air freight markets, whereas Polar would serve only the general air freight market; (b) its service would compete fully with the only direct all-cargo carrier in the market, whereas Polar would compete only with Federal Express's general air freight service; and (c) as an express specialist, it would afford shippers a competitive choice for direct service and would best improve the balance of trade between the United States and China, whereas Polar would effectively ignore the express segment of the market. The competing applicants argue that UPS already has a substantial presence in the U.S.-China express market and effectively serves China with its operations via Hong Kong, and thus its selection would provide only marginal public benefits compared to the selection of other carriers in this proceeding. Polar further argues that selection of UPS, another express carrier, would unduly concentrate the U.S.-China all-cargo authority in the hands of the two largest small package carriers at the expense of other shippers and the competitive needs of the market.

All of the incumbent carrier applicants urge the Department to allocate some of the available frequencies for expansion of incumbent carrier services. United argues that upgrading its current nonstop service in the San Francisco-Shanghai market to a daily service would benefit more nonstop and more total passengers than any other proposal to use residual frequencies for combination service in this case, and that its daily service at San Francisco would offer important intragateway and intergateway competition with the foreign carriers that dominate the West Coast-China market.

Northwest supports award of the new designation and allocation of the majority of the available frequencies for all-cargo services, stating that there is a greater need for additional all-cargo service in the market than for combination services. Northwest states that while it has requested a total of five additional frequencies, including some for combination services, its preference is for an award of frequencies for its proposed all-cargo services, should it be allocated only a portion of its request in this proceeding.¹³

Federal Express agrees that the majority of available frequencies should be awarded for all-cargo services, but contends that an award of the eight frequencies requested by Federal Express would provide greater public benefits than increasing the number of all-cargo competitors in the market. In this regard, Federal Express maintains that its proposal is the only one that would facilitate service to four Chinese cities, whereas the other all-cargo proposals would only duplicate existing service in the Beijing/Shanghai market, and that it has the only proposal that would fully use fifth-freedom rights under the U.S.-China agreement.

American, Delta, and UPS argue that all of the frequencies should be allocated to the new entrant carrier to establish a strong, competitive foothold in the market, and, thus, that none should be allocated to incumbent carriers.

All of the civic and labor parties filed extensive information concerning the public benefits that the proposed new services would offer. The parties supporting UPS cite the size of the all-cargo market, its potential for even greater growth by improved trade relations with China, and the benefits of additional jobs, business development, and improved service to shippers from an award to UPS. They further note the current and growing e-commerce business and the need for transportation services that would adapt to the changing distribution methods used by businesses. They argue that, as these logistical distribution methods continue to expand, there will be an increasing demand for the wide range of service products offered by a carrier such as UPS that cannot be met by traditional airport-to-airport cargo service. Similarly, Alaska, which supports all of the all-cargo proposals, emphasizes the stimulative effect such services would have on the economy and jobs both in Alaska and the U.S. as a whole, the availability of new service options and lower prices to shippers, and the enhanced competitive position of U.S. cargo carriers vis-à-vis Chinese carriers in the market from such awards. The FedEx pilots, supporting Federal Express' request for additional frequencies, emphasize that their members have experienced first hand the growth and great potential of the U.S.-China cargo market and maintain that Federal Express is in the best position to help U.S. businesses meet the demand for additional U.S. products and technological assistance.

The communities supporting passenger proposals emphasize the demand for combination services from their communities, and the benefits additional nonstop service in the U.S.-China market would offer travelers in their communities, as well as businesses that would use improved transportation services. They further cite the ability of their individual

¹³ Northwest Exhibit NW-505.

communities to support the services proposed and the benefit increased passenger access to China would have on U.S.-China relations. All also note that they are geographically well situated to serve connecting passengers throughout the U.S. for service to China and the benefits to travelers from increased options for connecting services to China.

A detailed summary of the pleadings is attached in Appendix D.

Tentative Decision

We have tentatively decided to select UPS to provide all-cargo service in the U.S.-China market and to allocate it six weekly frequencies for its services. We have also tentatively decided to allocate two weekly frequencies to United Air Lines and one weekly frequency each to Northwest and Federal Express to expand their U.S.-China services.

When we instituted this proceeding, we stated that our primary objective would be to maximize the public benefits that would result from award of the authority in this case. In making that decision we stated that we would consider which applicants would be most likely to offer and maintain the best service to the public and promote competition in the U.S.-China market.

We also noted that the new route opportunities for services to China represent valuable rights that were obtained in exchange for granting China route opportunities for its airlines to serve the United States. We therefore concluded that it was in the public interest to make full use of those rights. A significant feature of the expanded opportunities under the 1999 agreement is the ability to designate a fourth airline to serve the Chinese market. In these circumstances, we have tentatively decided that it is in the public interest to use the opportunity under the agreement to designate a fourth airline, and thereby increase competition and enhance the U.S.-flag presence in the market.

Based on this tentative conclusion, this case raises a threshold issue. Because we have applicants proposing different types of services, first we must determine which class of service would produce the greater public benefits--combination or all-cargo. Then, we must determine which applicant within that chosen class would produce the greater public benefits--American or Delta for combination service, or UPS or Polar for all-cargo service.

During the course of this proceeding we have developed an extensive record regarding the U.S.-China market and the services now provided. Based on a review of that record, we tentatively conclude that the introduction of new all-cargo service to the U.S.-China market would provide greater public benefits than new combination service.

Increasing competition in international markets is a primary U.S. aviation policy objective.¹⁴ It is particularly important in limited-entry markets where carriers are not

¹⁴ *U.S. International Air Transportation Policy Statement*, U.S. Department of Transportation, April 1995, pp. 7-8. 49 U.S.C. §40101.

free to tailor their services to market demand. For this reason, the opportunity to increase competition in the U.S.-China market was an important consideration in negotiating a new aviation agreement with China in 1999. While two U.S. combination carriers, United and Northwest, have served the market for a number of years, the U.S.-China market lacks U.S. carrier all-cargo competition. This case provides a valuable opportunity to meet an important U.S. aviation policy objective by ensuring competition in this market as well.

The authorization of the first U.S.-carrier all-cargo competitor would provide important public benefits.

First, it would provide all-cargo shippers the benefits now enjoyed by passengers using combination carrier services--more choice and greater incentives for improved service.

Second, it would help meet a critical unmet demand for capacity in the eastbound direction for general air freight service. The record in this case has demonstrated that in the eastbound direction from China to the U.S., the capacity offered by U.S. and Chinese carriers cannot meet the demand for cargo needing transport.¹⁵ As a result, significant levels of traffic are diverted to third-country carriers providing less direct service for shippers.¹⁶

Third, our tentative decision responds to the need for additional cargo capacity that is likely to result from the growth of our trade relations with China. The U.S.-China cargo market is growing, and should continue to grow rapidly. As noted, U.S.-China traffic has increased approximately 50% by weight and 100% by value in the last four years. We tentatively do not find persuasive American's and Delta's arguments that combination services provide sufficient cargo capacity for this traffic. Combination aircraft provide only 15% of the capacity available on all-cargo aircraft.¹⁷ Moreover, belly capacity cannot always accommodate certain size shipments, the schedules of passenger flights are frequently not timed to meet shippers' needs, and cargo is the first to be bumped from a flight if the belly is filled.¹⁸

Fourth, additional cargo service would help meet an unmet demand for competitive, head-to-head express/expedited services. The record shows that a significant level of traffic in the market involves high value traffic that is typically transported on door-to-door air express services, and that this traffic is growing both in terms of weight and value, comprising an increasing percentage of the traffic transported in both the eastbound and westbound directions.¹⁹ Currently, express shippers have only one choice

¹⁵ Exhibits NW-409, NW-414, NW-RS-103, UPS-R-505.

¹⁶ Exhibits UPS-601 and FX-413.

¹⁷ Exhibits NW-214, UPS-R-208.

¹⁸ Exhibits NW-N-1, p. 5, UPS-T-2, p. 5, UPS-R-203, 204, 208, 903, UPS Brief, pp.18, 28-31.

¹⁹ Exhibits UPS-1108 and 1109.

for direct door-to-door all-cargo service, Federal Express, and otherwise must use services over less direct and more time-consuming routings.

Finally, the addition of new direct U.S. all-cargo services would strengthen the U.S. carrier position in the market compared to Chinese carriers. The U.S.-China market is the second largest U.S.-Asia cargo market and is growing faster than any other U.S.-Asia cargo market.²⁰ Three Chinese carriers now serve the U.S.-China all-cargo market--China Eastern Airlines, China Southern, and Air China. These carriers have recently increased their services from seven to 13 weekly flights, nearly double the 1999 levels of service.²¹ Given the size of the all-cargo market, we view increased U.S. carrier participation in the market as a valuable public benefit.

We also tentatively conclude that selection of UPS to provide the first competitive all-cargo service would provide greater public benefits than new combination services. UPS would provide the first head-to-head competition with Federal Express, with daily service to both Shanghai and Beijing. It would serve the market with high capacity B-747 aircraft and would provide the majority of its service on a nonstop basis, affording shippers significant new capacity for their services and improved services, since Federal Express' service is provided on a one-stop basis. Moreover, and importantly, UPS would provide shippers a full range of cargo services, comparable to those provided by Federal Express, ensuring a full spectrum of competitive service options for shippers.

We tentatively conclude that none of the factors supporting the combination applicant proposals outweigh these advantages. American and Delta argue that their proposed services would provide important competition in the passenger market. The combination market, however, already has competitive services from Northwest and United. Over the past several years we have enhanced that competition substantially by increasing the levels of services that both of these carriers may operate in the market. United operates 19 weekly flights and Northwest operates 13 weekly flights for a total of 32 weekly combination flights. In addition, the 1999 agreement provided valuable new opportunities for code-sharing services between U.S. and Chinese airlines. Northwest has a comprehensive reciprocal code-share arrangement with Air China that enables the carriers to sell seats on each other's direct services and to offer services on each other's domestic services to interior U.S. and Chinese cities. Thus, in addition to its own 13 weekly flights, Northwest offers service on nine additional weekly flights operated by Air China. American also has a code-share arrangement with China Eastern and Delta an arrangement with China Southern that enable these carriers to hold out services in the U.S.-China market on flights operated by their Chinese partners, not only between the U.S. and China, but also to points within China.

²⁰ Exhibits UPS-501, 502, 511.

²¹ "China Southern Expands Cargo Operations", *Reuters*, (August 15, 2000); "China Eastern Bullish on U.S. Air Cargo", *Reuters*, (May 3, 1999; Press Release of China Eastern Airlines Corporation Limited, "China Eastern Airlines Corporation Limited Announces 2000 Interim Results," at 2. (August 24, 2000).

All of these services increase the choices available to travelers in the market and make available service by four U.S. combination airlines on a total of 52 weekly flights. There is no comparable competition in the cargo market. Federal Express is the only full service U.S. all-cargo carrier authorized to provide direct service flights.²²

American and Delta argue that their proposed services at Chicago and New York would alleviate service deficiencies in the passenger market. While the selection of either American or Delta would improve passenger service in the U.S.-China market, so too would the selection of UPS improve cargo service in the U.S.-China market. UPS' selection would also increase competition and consumer choice, strengthen the position of U.S. airlines in the market, and respond to existing service deficiencies to a significantly greater degree than the selection of any other applicant in this case. In these circumstances, we have tentatively concluded that the improved services in the all-cargo market outweigh the improvements that would result from new combination services.

Even at current traffic levels, there is insufficient cargo capacity to accommodate traffic in the eastbound direction by U.S. and Chinese carriers.²³ By contrast, there appears to be sufficient capacity to meet the demand for passenger service. In this regard, the record shows that, based on the Department's T-100 data, the passenger cabins of U.S. airlines are far from full, since their load factors on nonstop services for the year ended June 1999 were only 60% and the percentage of U.S.-China traffic on one-stop services was well below 50%.²⁴

Moreover, while we recognize that the nonstop services proposed by American and Delta would improve service at Chicago and New York, only one additional designation is now available for a new airline to serve China. Given the existing passenger services already available in the market and to these particular communities, on balance, we believe that adding the first direct U.S. all-cargo competitor in the market offers greater public benefits in this case. We note that passengers in the Chicago-China and New York-China markets already have the opportunity to choose between competing direct services. New York-China passengers now have over 60 one-stop on-line service options to China, and Chicago-China passengers now have over 30 one-stop on-line service options to China.²⁵ Our tentative decision in this case would now for the first time provide the users and providers of cargo services with the benefits of choice for direct full service U.S.-carrier all-cargo service to China as well.

Furthermore, the existing combination services provide convenient access for travelers throughout the United States. Currently, services are provided from three gateway cities,

²² We recognize that under the U.S.-China aviation agreement, carriers designated for combination services may use their allocated frequencies for passenger, combination, and/or all-cargo services. In this regard, Northwest has begun service with two weekly all-cargo flights in the market. That service, however, is not fully competitive with Federal Express' fully integrated service.

²³ Exhibits NW-409 and 414.

²⁴ Exhibits NW-110, UPS-818, 819, 821, 823, 824, PO-R-117.

²⁵ Official Airline Guide, Worldwide Edition, February 2000.

San Francisco, Los Angeles, and Detroit, all of which are hubs for the U.S. carrier operations. These services not only benefit travelers in the large local markets at these communities, but also enhance the connecting services available for U.S.-China travelers in all regions of the country. These services are a direct result of the extensive network services operated by Northwest and United. UPS also operates extensive domestic and international network services. The evidence is that UPS' proposal in this case will use that network to provide cargo shippers and consumers with the benefits of more convenient access to China, benefits that are now enjoyed by passengers.

It is in these circumstances that we have tentatively concluded that the public benefits that are likely to result from the selection of UPS are greater than those that are likely to result from the selection of any other applicant in this case.

In reaching this conclusion, we have also tentatively concluded that, of the two applicants proposing all-cargo service in this case, UPS is a better choice than Polar. There are three key aspects of UPS' proposal that we believe make it the superior selection for the all-cargo award. First, UPS would provide a comprehensive array of services to meet the needs of all shippers in the market. It is clear from the record that the U.S.-China cargo market is comprised of diverse commodities with varying transportation needs. While there are substantial levels of products that require airport-to-airport, general air freight services, there are also substantial levels of expedited/express type traffic that require more specialized, door-to-door transportation. The record also shows that the express/expedited type of traffic is growing and comprises a significant portion of the overall traffic in the market.²⁶ UPS is an integrated carrier able to offer a wide range of transportation services, including general air freight services, and thus would serve the full spectrum of transportation needs of the market. Polar, on the other hand, has proposed to offer general air freight services only and thus is able to serve only one segment of this important market.

Second, UPS proposes to offer greater capacity than Polar to the U.S.-China market and thus would afford China shippers more service in the market. UPS proposes to operate the majority of its flights on a nonstop basis,²⁷ whereas Polar proposes to operate all of its services on a one-stop basis via Seoul, limiting the capacity available to China shippers. With the demonstrated capacity shortfalls in the eastbound direction and the size of the cargo market, we believe that the additional capacity available and service tailored to the needs of the China market from UPS' proposal would afford U.S.-China shippers a greater service advantage.

Third, UPS is better positioned to offer the broadest and strongest competition against the major incumbent, Federal Express. Federal Express is an integrated carrier and offers a

²⁶ Exhibits FX-412, UPS-1108 and 1109.

²⁷ Under its ten-flight proposal, UPS would operate six nonstop flights and four one-stop flights. If allocated fewer than 10 flights, UPS would also offer a mixture of nonstop and one-stop flights, with the majority being operated nonstop. Exhibit UPS-1500, Response to Interrogatories, page 1.

wide range of transportation products to meet the various needs of shippers.²⁸ The record shows that Federal Express offers services to general air freight shippers that will provide airport-to-airport delivery of the products shipped; International Express Freight service, also an airport-to-airport product, but with time guaranteed delivery; International Priority Freight Service, a door-to-door, time guaranteed service for shipments weighing 150 pounds or more; and International Priority service, a door-to-door, time guaranteed service for shipments up to 150 pounds.²⁹ UPS is the only applicant capable of offering shippers a comparable range of services that can compete directly with those offered by Federal Express.³⁰ Moreover, because UPS proposes to operate the majority of its services on a nonstop basis, it would provide a service improvement for shippers in the market and strong competition for Federal Express, which now operates all of its services on a one-stop basis. Given the complex and multifaceted transportation needs of the market, we tentatively conclude that the service and competitive advantages of UPS' proposal are compelling in this case.

We are unpersuaded by Polar's arguments that UPS would not serve the general air freight market, including other air freight forwarder customers, and thus, that there will be no general air freight alternative available to shippers in the market. UPS has stated that it serves the entire air cargo market with both time-definite and general air freight products, and has included letters from potential shippers interested in using its services.³¹ It is also clear from UPS' exhibits that it expects general air freight to comprise a substantial portion of its traffic in both the eastbound and westbound directions.³² Thus, we believe that UPS' service will provide critically needed capacity for general air freight traffic and an important competitive service option for general air freight shippers. Therefore, contrary to Polar's arguments of undue concentration of express services, we believe that all segments of the cargo market will benefit from substantial competitive choices.³³

In reaching our tentative decision, we have taken into consideration the arguments raised by American and Delta against authorization of new all-cargo services in general, and of UPS in particular. The thrust of the carriers' arguments is that there is significant all-cargo competition in the U.S.-China market already without direct flight services and that UPS effectively serves China now through its service via Hong Kong. We tentatively conclude that the record does not support these contentions.

²⁸ Exhibits FX-215 at 1-3, UPS-903, UPS-R-204.

²⁹ Exhibit FX-400.

³⁰ Exhibits UPS-1101, pp. 16-17, UPS-1402, UPS-R-203, p. 1-3, UPS-R-204.

³¹ UPS Direct Exhibits, Volumes 1-3, UPS-R-203, p. 4.

³² By weight such traffic would constitute nearly 50% of the projected traffic to be carried. By revenue, such traffic constitutes approximately 20% of UPS' projected traffic. Exhibits UPS-1101, pp. 2 & 9, UPS-1133, and UPS-1147.

³³ Polar has argued that, because they are express specialists, Federal Express and UPS will not offer competitive prices to general air freight shippers. We find no such evidence on the record of this case. Moreover, Federal Express, UPS, and Northwest would be offering general air freight all-cargo service, promoting price competition.

Federal Express is the only full service U.S. all-cargo carrier able to serve the U.S.-China market directly. All other all-cargo airlines must operate their services indirectly as air freight forwarders. Some, such as DHL, have chosen to do so by using the services of other direct air carriers for the full journey. UPS has chosen to operate its own service to Hong Kong and then must transship its cargo on other airlines or surface carriers to customers in China³⁴ These indirect operations neither constitute service comparable to that held out by Federal Express, nor fully address the need for competition in this market.

As the Department has previously recognized, direct air service offers considerable public interest benefits in quality of service that results from the direct air carrier being able to control the transportation and the handling of cargo, attributes that cannot be matched on an indirect basis.³⁵ UPS' exhibits have demonstrated that the inability to serve directly increases the time, mileage, connections, circuitry, and expense of the services provided and precludes the carrier from tailoring its services to the needs of its customers or its system schedules.³⁶ Moreover, this handicap can limit the scope and range of services carriers are able to offer, as carriers are not in full control of the capacity available.³⁷ Significantly, Federal Express's own exhibits demonstrate the operational and public benefits from being able to serve this market directly, and the carrier, in promoting its service to the shipping public, has benefited from its service advantage of being the only full service U.S. all-cargo carrier able to serve directly.³⁸

Given the size of the cargo market and the capacity shortfalls that already exist, we believe that the benefits of providing such direct competitive services by an award to UPS to be substantial in this case.³⁹ In this regard, we view UPS' experience in the Hong Kong-China market as an indirect air carrier as an advantage to its selection. As a carrier

³⁴ UPS Brief, p.10, UPS, T-2 at 5 and UPS-408 and 409.

³⁵ See, *U.S.-Mirabel All-Cargo Case*, Docket 47717, Order 92-8-7 at 3-4, and *U.S.-Philippine All-Cargo Case*, Docket OST-96-1074 at 6.

³⁶ Exhibit UPS-T-2, p. 5, UPS-405, 408, 409, UPS-1316 & 1317. While American and Polar have argued that UPS' existing service via Hong Kong is just as fast as Federal Express's service, UPS argues that those studies compared services on the day that Federal Express does not operate flights in the market. UPS provided studies that demonstrated its service without direct flights was one full day slower in some cases and one-half day slower in others. UPS-R-511 & 512.

³⁷ UPS Brief at 15-16, 19; UPS-R-511; UPS-T-2, at 5; UPS-RT-2, at 2.

³⁸ Exhibits FX-412, FX-T-1 at 7, UPS-R-632, UPS-R-633.

³⁹ We tentatively find that American's and Polar's arguments that DHL had a high market share without operating direct flights are not persuasive. American and Polar have argued that DHL, an express carrier, has a 29% share of the express/small package market even though it does not operate aircraft in the market, but rather uses services of other airlines that do to transport its traffic. As UPS has pointed out, DHL's primary business is document transport. Documents are only one component of express/small package cargo and are better suited to carriage in the belly of passenger aircraft than other express/small package traffic. While this may satisfy DHL's transport need, it does not suit UPS' broader transportation requirements. UPS Brief at 3 & 19, fn8.

familiar with the market and its service needs, UPS will be well positioned to provide responsive service to shippers and the most effective competition with Federal Express.⁴⁰

We are also unpersuaded that the size of the express market and nature of door-to-door service in China argue against an award to UPS. In regard to the first argument, the parties contend that the express market is minimal, constituting only 14% of the traffic in the U.S.-China market and, thus, that there is no need for additional express service competition. However, the parties' characterization of the express market is too narrow. While express traffic may not constitute a high percentage of the traffic carried in terms of weight, it does constitute a significant percentage of the traffic in terms of value of the commodities transported. As reflected in the exhibits to this case, express traffic constitutes 75% of the value of the traffic transported westbound and 21% eastbound. Furthermore, as noted, express traffic is growing rapidly and has the potential for still greater growth.⁴¹ Moreover, our selection of UPS is not based solely upon its ability to provide express cargo service competition. The needs of the express market, together with the other factors, discussed above, demonstrate that the selection of UPS would provide the most significant public benefits in this case.

Second, the parties argue that express carriers do not have single-entity control of their pickup and delivery services in China and, therefore, do not provide the door-to-door service required for express services. They contend that this substantially reduces any benefits of UPS' service. We disagree with this contention. Federal Express now has the ability to control both the surface and air portions of its service to China. While it has been argued that express carriers in the China market must contract with Chinese companies for pickup and delivery services, the service is nonetheless operated under the express carriers' name and the express carriers are responsible for the service. We see no reason why UPS should not have comparable ability to control both the air and surface portions of its China service as does Federal Express.

Finally, we are unpersuaded by arguments that UPS' service is not viable. Similar arguments have been made with respect to the passenger service proposals in this case, especially since the incumbents are operating at relatively low load factors. Our analysis indicates that the stimulation and growth factors used by all of the applicants in this case may be overly optimistic. Nonetheless, we believe that all of the proposals offered are

⁴⁰ American's reliance on the Department's decision in the Evergreen/Federal Express route transfer case (Order 95-8-9) is inapposite. It does not persuade us to alter our view that UPS' proposed new service direct to Shanghai and Beijing would provide substantial competition for Federal Express' current all-cargo service. In the Evergreen case, the issue was whether unprecedented "draconian" conditions should be imposed on a route transfer to protect against potential unfair competitive practices by Federal Express against DHL. The Department noted that DHL had numerous alternatives to Federal Express for its indirect courier shipments, including the services of foreign carriers. It does not follow that UPS' current Hong Kong service, which requires a transshipment to a Chinese carrier or long-haul trucking service, constitutes the kind of enhanced competitive alternative to Federal Express' all-cargo service to Shanghai and Beijing that selection of UPS would achieve in this case.

⁴¹ Exhibits UPS-1108 and 1109, FX-412.

credible and that all of the applicants would operate the services they have proposed. This is especially true since all of the parties in this case have convincingly demonstrated the importance to each of them of an award in this case and the evidence of record demonstrates the historic patterns of growth and the potential for even greater growth in the future in the U.S.-China market. Indeed, all parties have agreed that improved trade relations with China will increase the demand for service.⁴² Moreover, UPS now participates in the market as an air freight forwarder and, thus, has knowledge of the levels and types of demand for service. All of these factors support a conclusion that UPS will be able to mount and maintain its service successfully.⁴³

Frequency Allocations

Under the 1999 aviation agreement, a total of ten additional frequencies are available for U.S.-China services. These ten frequencies are available for allocation among the four carriers designated for service. UPS has requested all 10 frequencies and each of the incumbents has requested an additional allocation of flights to augment its own services in the market. We have tentatively decided to allocate UPS six weekly frequencies, and to allocate two additional frequencies to United and one weekly frequency each to Northwest and Federal Express.

As discussed above, we have tentatively decided that it is in the public interest to authorize a fourth airline to serve China. We also tentatively conclude that it is critical to the success of that new entrant carrier to be able to provide its service on a frequent enough basis to enable the carrier to establish a viable service and a strong competitive presence in the market. For all-cargo service, and particularly those involving an express service component, the record has demonstrated that six weekly frequencies are necessary.⁴⁴ The six weekly frequencies we propose to allocate UPS here will ensure that UPS can operate what is, for all-cargo purposes, effectively a “daily” service to Beijing and Shanghai in competition with Federal Express’ service to these cities.

We also tentatively conclude that it is in the public interest to use the four remaining available frequencies for expansion of services for each of the existing designated carriers. The restrictions in the U.S.-China agreement have impeded service expansions in the market that would best meet the needs of the traveling and shipping public. While

⁴² PO-T-1, at 1; NW-N-1, p. 14; UPS-T-1 & 2, p. 7; FX-205 & 206; AA-T-1, at 4; AA-128; UA-T-2, at 2; and Delta Brief, at 1.

⁴³ American has argued that UPS cannot support daily nonstop services and Federal Express argues that only four weekly flights by UPS are justified. UPS’ traffic forecast was based on the operation of 10 weekly flights. If allocated six weekly flights, UPS has stated that it would operate four nonstop flights and two one-stop flights. This combination of services will afford UPS traffic support, should it be needed, as UPS develops its direct flight services. Of course, UPS would be free to operate all six of its flights on a nonstop basis, should it choose. With respect to Federal Express’s arguments, we note that Federal Express began service in the China market with four weekly flights and has argued strongly and persuasively that responsive cargo service with express components cannot be provided without the ability to operate a six-day-a-week “daily” service, and that there is high demand in the market to support that level of service. We see no reason why this would not be equally applicable to UPS’ service.

⁴⁴ Exhibit UPS-1500, at 2, FX-T-1, at 8.

the frequency increases in 1999 made it possible to enhance to some degree incumbent carrier services, these increases have not given the incumbent carriers the flexibility they indicate is needed to serve the market effectively. In these circumstances, we tentatively believe that it is in the public interest to award the additional four frequencies to the three incumbent carriers, which can best use them to provide further service and competitive benefits to the market.

United seeks two additional frequencies to upgrade its nonstop San Francisco-Shanghai service to a daily service. Northwest seeks a total of five additional frequencies--two to expand its all-cargo service, one to upgrade its Detroit-Shanghai combination service to a daily service, and two to inaugurate combination service between Honolulu and China. Federal Express seeks eight additional frequencies to extend its direct services to an additional Chinese city, Dalian, and upgrade its service to provide six-day-a-week service to a total of four Chinese cities.

We tentatively find that each incumbent carrier has submitted as part of its proposal a need for using additional frequencies and would thus be able to expand its current service in the U.S.-China market. We also tentatively find that each incumbent carrier's proposal would provide significant public benefits for the traveling and shipping public. These considerations, coupled with the limited number of frequencies available, support our tentative conclusion that the public interest would be best served by ensuring that all of the incumbent carriers are able to expand in some part their services in the market. Based on their proposals, we tentatively believe that there should be two additional frequencies given to United and one each to Northwest and Federal Express.

This overall approach provides the opportunity to expand both the passenger and cargo segments of the market and takes into consideration the needs of the three carriers for additional frequencies to expand their operations. Such awards would enable United to expand its current San Francisco-Shanghai service to a daily service, affording passengers in that market an additional daily service option and competition with the services now provided by Air China and Northwest. Northwest would be able to use its proposed award to increase its combination services from Detroit to a daily service, or to expand its all-cargo services or to introduce new passenger services from Honolulu. It would also enable Federal Express to expand its all-cargo services and thus the availability of its fully-integrated all-cargo service to the market, a market that the record has demonstrated is growing and diverse.

Backup Award

We have tentatively decided not to select a backup carrier for the new entrant award in this case. Central to our tentative selection of UPS are the service and competitive benefits provided by the broad spectrum of cargo services it is able to offer consumers in this market in competition with Federal Express. Should our selection of UPS be made final and should UPS not implement such an award, we tentatively find that the public interest would be better served by reconsidering which carrier should be selected for new entrant services in the market. We also have tentatively decided not to select backup

carriers for the frequency awards to incumbent carriers tentatively proposed in this order. As noted below, these frequencies will be subject to our standard 90-day dormancy condition. Should they revert to the Department, we will promptly establish procedures to reallocate the frequencies based on the circumstances present at that time.

Economic Authority

Consistent with our policy with respect to limited-entry routes, we stated in our instituting order that the certificate authority awarded in this case would be in the form of a five-year, experimental certificate of public convenience and necessity under 49 U.S.C. 41102(c). In response to interrogatories included in the evidence request to our instituting order, each applicant stated that it would accept a condition that the selected carrier would be required to institute service by the date specified by the Department. In this regard, UPS has stated that the Department should specify April 1, 2001, as the required date to commence service. If we finalize the tentative award proposed in this order, we would issue UPS an experimental certificate that includes a condition requiring UPS to commence its service no later than April 1, 2001.⁴⁵

Also, consistent with our standard practice, we propose that the frequencies allocated in this proceeding be subject to our standard 90-day dormancy condition, wherein the frequencies would be deemed dormant if they are not operated for 90 days except where the service in the market is seasonal. As all of the carriers in this proceeding have proposed year-round services, the seasonal proviso is not applicable. Under the dormancy condition, if the flights allocated are not used for a period of 90 days, the frequency allocation would expire automatically and the frequencies would revert to the Department for reallocation. The dormancy condition applicable to the frequencies tentatively allocated here would begin April 1, 2001, the date that the frequencies become available.

ACCORDINGLY,

1. We tentatively select United Parcel Service Company to provide scheduled foreign air transportation of property and mail between Anchorage, Alaska, and Beijing and Shanghai, China, via the intermediate point, Tokyo, Japan;
2. We tentatively allocate UPS six weekly frequencies for its proposed services, subject to our standard 90-day dormancy condition;
3. We tentatively allocate two weekly frequencies to United Air Lines, Inc., and one weekly frequency each to Northwest Airlines, Inc., and Federal Express Corporation, for their proposed U.S.-China services, subject to our standard 90-day dormancy condition;

⁴⁵ Although American has raised the issue of the scope of authority to be awarded to a new entrant carrier in this proceeding, UPS has made clear that it is prepared to accept a certificate limited to its proposal in this case. In these circumstances, we see no need to address the issues raised by American.

4. We direct any interested parties having objections to our tentative decisions set forth in this order and described in ordering paragraphs 1 through 3, above, to file their objections with the Department, Dockets, Docket OST-99-6323, U.S. Department of Transportation, 400 Seventh Street, S.W. Room PL-401, Washington, D.C. 20590, no later than 21 calendar days from the date of service of this order; answers to objections shall be due no later than 10 calendar days thereafter;⁴⁶

5. If timely and properly supported objections are filed, we will afford full consideration to the matters or issues raised by the objections before we take further action;⁴⁷ if no objections are filed we will deem all further procedural steps to be waived and will proceed to enter a final order awarding the authority proposed in this order;

6. We grant all motions for leave to file otherwise unauthorized documents in this proceeding; and

7. We will serve this order on all parties to this proceeding; the Ambassador of the People's Republic of China in Washington, DC; the U.S. Department of State (Office of Aviation Negotiations), and the Federal Aviation Administration.

By:

SUSAN MCDERMOTT
Deputy Assistant Secretary for
Aviation and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
http://dms.dot.gov/reports/reports_aviation.asp*

⁴⁶ The original filing should be on 8½" x 11" white paper using dark ink (not green) and be unbound without tabs, which will expedite use of our docket imaging system. In the alternative, filers are encouraged to use the electronic filing submission capability available through the Dockets/DMS Internet site (<http://dms.dot.gov>) by following the instructions at the web site.

⁴⁷ As we are providing for the filing of objections to this tentative decision, we will not entertain petitions for reconsideration of this order.

CURRENT U.S.-CHINA AIR SERVICES

APPENDIX A
Page 1 of 2

I. Combination Services	Weekly Freqs.	Routings	Code-Share Services
<u>U.S. Carriers:</u>			
-Northwest (NW)	4	Detroit-Beijing	Air China places its code on all 13 of these flights.
	3	Detroit-Tokyo-Beijing	
	2	Detroit-Shanghai	
	4	Detroit-Tokyo-Shanghai	
Subtotal (NW)	13		
-United (UA)	7	San Francisco-Beijing	N/A
	5	San Francisco-Shanghai	
	7	Los Angeles-Tokyo-Shanghai	
Subtotal (UA)	19		
Total All U.S. Carriers	32		
<u>Chinese Carriers</u>			
-China Eastern (MU)	7	Los Angeles-Beijing/Shanghai	American Airlines places its code on all of these flights.
-Air China (CA)	4	Los Angeles-Beijing	Northwest places its code on all 9 of these flights.
	5	San Francisco-Beijing/Shanghai	
Subtotal (CA)	9		
-China Southern (CZ)	4	Los Angeles-Guangzhou	Delta places its code on these flights.
Total All Chinese Carriers	20		
Grand Total All Carriers	52		

CURRENT U.S.-CHINA AIR SERVICES

APPENDIX A
Page 2 of 2

II. All-Cargo Services	Weekly Freqs.	Service Points			
		U.S. Points	Chinese Points	Intermediate Points	Beyond Points
<u>U.S. Carriers</u>					
-Northwest	2	Anchorage, Chicago, San Francisco, Seattle	Shanghai	Tokyo	N/A
-Federal Express	10	Memphis, Newark, Chicago, Anchorage, San Francisco	Beijing, Shanghai, Shenzhen	Tokyo, Osaka	Subic Bay, Kuala Lumpur, Penang
Total All U.S. Carriers	12				
<u>Chinese Carriers</u>					
-China Eastern	5	Los Angeles, Seattle, Chicago, Anchorage	Beijing, Shanghai	N/A	N/A
-Air China	5	New York, Chicago, Anchorage	Beijing, Shanghai	N/A	N/A
-China Southern	3	Chicago, Anchorage	Shenzhen	N/A	N/A
Total All Chinese Carriers	13				
Grand Total All Carriers	25				

Applicant	Routings	Proposed Service	Weekly R/T	Aircraft	Seats	Annual R/T Passenger Capacity	Annual Forecast Pax Traffic 1/	% Local	% Flow U.S.	% Flow Other	Load Factor	Annual Forecast		Start-up Date
												R/T Belly	Cargo Capacity (Lbs.) 2/	
American	LGA*-ORD-SHA	combi	7	B777	222	162,060	125,782	39%	54%	8%	78%		23,852,476	1-Apr-01
	DFW*-ORD-BJS	combi	3	B777	222	69,486	55,633	21%	71%	8%	80%		13,582,491	
			10			231,546	181,415						37,434,967	
Delta 3/	ATL-JFK-BJS-SHA	combi	7	M11/B777	260/277	196,716	159,399	61%	36%	2%	81%		22,838,000	1-Apr-01
	CVG-BJS-SHA**	combi	3	M11/B777	260/277	84,307	67,202	7%	87%	6%	80%		9,636,000	
			10			281,023	226,601						32,474,000	
Northwest	LGA*-DTT-SHA	combi	1	B747-400	418	43,472	24,042	12%	85%	3%	55%		2,130,180	1-Apr-01
	HNL-TYO-BJS	combi	1	B747-200	371	38,584	26,304	0.59%	53%	47%	68%		2,579,616	
	HNL-TYO-SHA	combi	1	B747-200	371	38,584	25,163	0.34%	53%	47%	65%		2,579,616	
			3			120,640	75,509						7,289,412	
United	IAD*-SFO-SHA	combi	2	B747-400	368	76,912	72,255	62%	38%	0.74%	94%		11,358,360	1-Apr-01

outing Legend: LGA=New York; DFW=Dallas/Ft. Worth; ATL=Atlanta; JFK=New York; CVG=Cincinnati; BJS=Beijing; SHA=Shanghai; DTT=Detroit; HNL=Honolulu; TYO=Tokyo; IAD=Washington DC; SFO=San Francisco; and ORD=Chicago.

/T = roundtrip

/ American and Northwest state their intention to display their Chinese partners' codes on their proposed services. American's code-share traffic is projected at 4% of total traffic on its Shanghai route and 2% of total traffic on its Beijing route (AA-310). Northwest's code-share traffic is projected at 21% of total traffic on its nonstop Detroit-Shanghai route. Northwest does not intend to code-share on its other routings from HNL (NW-322, 325, and 501). United and Delta indicate that they would not carry code-share traffic at all (DL-206 and UA-600).

/ Belly cargo capacity figures are those presented by applicants using a 70% passenger load factor.

/ Delta states that it would use MD-11 rather than B-777 aircraft for the first six months of the forecast year pending availability of B-777 for year-round service.

Single-flight number behind-gateway service.

*Delta's Cincinnati flights would connect in Beijing with Delta's Chicago-Beijing-Shanghai flights, thus providing "cross-connecting" service beyond Beijing to Shanghai on the Cincinnati route. Sources: AA-201-204, 222-223, 302-305, 408, and 703; DL-101, DL-T-1 at 5-6, DL-301-303, 350-352, 377, 383, and DL-T-1 at 22; NW-203, 325, 319, 322, 330, 314-315, and 504; and

UA-201, 212, 301, 310, and 503.

Applicant	Routings	Proposed Service	Weekly		Capacity per Flight (Lbs.) ^{1/}	Total		U.S.-China		Start-up Date
			Freqs.	Aircraft		Traffic (Lbs.)	Forecast	Traffic (Lbs.)	% of Total	
UPS	ONT*-ANC-BJS-SHA	all-cargo	6	B747-200	200,000	76,774,000	69,168,000	90%	1-Apr-01	
	EWR*-ANC-TYO-SHA	all-cargo	4	B747-200		64,156,000	46,068,000	72%		
			10			140,930,000	115,236,000	82%		
Polar 2/	ANC-SEL-BJS-SHA**	all-cargo	6	B747-200	200,000	118,362,000	70,618,000	60%	1-Apr-01	
Northwest 3/ 4/	ORD*-ANC-TYO-SHA	all-cargo	2	B747-200	200,000	32,081,793	21,560,278	67%	1-Apr-01	
FedEx 3/	Complex routing that would add two frequencies	all-cargo	8	MD-11 DC10-30	161,000 142,000	46,471,322	37,291,824	80%	1-Apr-01	

Routing Legend: ONT=Ontario, California; BJS=Beijing; SHA=Shanghai; ANC=Anchorage; TYO=Tokyo; SEL=Seoul; EWR=Newark; JFK=New York; LAX=Los Angeles; SFO=San Francisco; and ORD=Chicago.

R/T = roundtrip

1/ B747-200 freighter capacity is estimated at 200,000 pounds. The actual capacity will vary depending on such factors as fuel load required, among others.

2/ Polar states it would use B747-400F aircraft and eliminate the Eastbound SEL stop as its service develops (PO-T-1 at 6).

3/ Forecasts reflect results of additional frequencies only.

4/ Northwest traffic figures derived from NW-301-R by taking one-half of total baseline ((41,681,656+16,106,702)/2) and adding service premium traffic (1,576,944+1,610,670).

*Single-flight number behind-gateway service.

**Includes 4x/week behind-gateway service from JFK/ORD; 2x/week behind-gateway service from LAX/SFO;

and 2x/week service to Shenzhen, China. Polar indicates it would serve Beijing and Shenzhen in the Westbound direction only (PO-101).

Sources: UPS-1141, 1128, 1101, 909, and 1500; PO-T-1 at 6, PO-400, 301, and 101; NW-201, 214, and 301-R; and FX-217, 400-404, 303, and 206.

Civic/Labor Party Positions
U.S.-China Air Services

Civic Party	Position
Cincinnati/Northern Kentucky Parties	Supports Delta's application for certificate authority and allocation of 10 weekly frequencies.
Wayne County, Michigan and the Detroit Metropolitan Wayne County Airport	Supports applications of Northwest and UPS and allocation of three weekly frequencies to Northwest and seven to UPS.
City of Ontario, California & the Ontario, California International Airport	Supports UPS' application for certificate authority and allocation of 10 weekly frequencies.
The City of Louisville & the Louisville Regional Airport Authority	Supports UPS' application for certificate authority and allocation of 10 weekly frequencies.
Regional Business Partnership (Newark)	Supports UPS' application for certificate authority and allocation of 10 weekly frequencies.
Los Angeles World Airports	Supports UPS' application for certificate authority and allocation of 10 weekly frequencies.
International Brotherhood of Teamsters (IBT)	Supports UPS' application for certificate authority and allocation of 10 weekly frequencies.
City and County of San Francisco	Supports United's application for two weekly frequencies.
City of Chicago	Supports American's application for certificate authority and allocation of 10 weekly frequencies. In the event that American is awarded only the frequencies necessary to provide daily Chicago-Shanghai nonstop service, Chicago supports the allocation of two frequencies to United to enable it to inaugurate daily Chicago-Shanghai service.
Greater Rockford, Illinois Airport Authority	Supports UPS' application for certificate authority and allocation of 10 weekly frequencies.
Federal Express Pilots Association	Supports Federal Express application for 8 additional frequencies.
State of Alaska/Anchorage and Fairbanks International Airports	Supports the applications for cargo frequencies by UPS, Federal Express, Polar, and Northwest.

Summary of Pleadings

New Entrant Applicants

American

American argues that the new designation should be awarded to a combination rather than an all-cargo carrier, and that no additional frequencies should be awarded to the three U.S.-China incumbents in this case. While there is already ample U.S.-China cargo capacity, that is not the case with respect to the U.S.-flag passenger market, according to American. To compete in the U.S.-China passenger market against the “duopoly” of Northwest and United and their worldwide alliances, American contends it needs the new designation and all ten available frequencies. American maintains that it would be the best competitor with its oneworld alliance.

American emphasizes that its aircraft would accommodate both passengers and cargo between the U.S. and China. In comparison, American contends that all-cargo applicants would not add a single passenger seat to the market; would have no impact on the U.S.-China “duopoly” of Northwest and United; and would waste a historic opportunity to promote people-to-people contact and exchange of ideas between the United States and China.

American states that Chicago is an ideal gateway for new U.S.-China service. In this regard, American notes that passenger traffic in the Chicago-Shanghai and Chicago-Beijing markets has experienced substantial growth rates in recent years and that Chicago is one of the world’s largest connecting hubs with nonstop service to 250 cities in the U.S., Canada, Latin America, Europe, and Asia. American maintains that there is a large local market between Chicago and China, nonstop service is feasible, and there is a substantial flow market. In this regard, American states that its Chicago proposal would provide nonstop-to-nonstop connections between China and 76 U.S. cities. In contrast, American argues that neither of Delta’s hub airports (Atlanta and Cincinnati) can support nonstop service to China. Moreover, American contends that, while nonstop service by Delta from New York is feasible and the New York-China market is large, there is no significant nonstop-to-nonstop on-line flow traffic to support Delta’s proposal.

American states that United’s assertion that it will begin daily nonstop service in the Chicago-Shanghai market on April 1, 2001, was made only in response to American’s application and should receive no credit in this proceeding. American argues that UPS already serves and competes against FedEx in the U.S.-China cargo market through Hong Kong. American states that UPS operates 17 weekly flights to Hong Kong and provides express service to 21 major cities in China, plus joint service with Sinotrans to an additional 108 cities. In addition, American asserts that there is not enough express cargo business in the U.S.-China market to justify awarding the only available China designation to UPS;¹ there is a severe directional imbalance of U.S.-China cargo flows; and UPS’ proposal relies heavily on the carriage of non-U.S. traffic, contrary to the public interest.

¹ In this regard, American notes that small package express shipments account for only a small amount (14%) of the weight flown under UPS’ own cargo forecast.

Delta

Similar to American, Delta argues that there is a greater need for combination service than all-cargo service in the U.S.-China market, and that person-to-person contact drives the global economy. In these circumstances, Delta further agrees that the failure to award the new opportunity to a combination carrier would waste an historic opportunity to promote an exchange of ideas and cultures between the countries. It also agrees with American that the incumbent carriers should receive no new frequencies in this proceeding. It contends that the new entrant carrier needs all of the available frequencies to establish a strong presence in the market in competition with the entrenched operations of the incumbent carriers.

However, Delta asserts that it, rather than American, should be the combination carrier selected in this case. Delta states that it would be a true new entrant competitor to Beijing and Shanghai, offering the only nonstop service between the U.S. East Coast and China and serving the largest and most important unserved gateway (New York City) with new nonstop service. Delta maintains that its combination of daily New York nonstop service and three weekly flights from Cincinnati will alleviate a critical gap in China service from the eastern United States since all other U.S.-China services are provided from the west coast or central part of the United States. It maintains that such service will ensure that all regions of the country have convenient service in the U.S.-China market. Delta further states that its service would reduce travel times for New York-Beijing passengers by more than seven hours and will provide New York passengers single-plane service to the two major cities in China. Delta contends that direct links to the major business and financial centers in both countries will be even more important as trade relations between the countries improve and business travel increases. It adds that its New York-China nonstop proposal is enhanced by its plan to operate single-plane service to Atlanta, the business and cultural center of the southeast United States, and Delta's primary hub.

Delta states that in order to compete with its proposed services, incumbent combination carriers (Northwest and United) would be required to more effectively utilize existing China frequencies for nonstop, rather than one-stop, services. Delta further notes that its Cincinnati nonstop and Atlanta single-plane services would provide unsurpassed network coverage to wide regions of the U.S., complementing the array of nonstop connections that Delta would offer from its New York (JFK) gateway, and that these combined services will benefit the most passengers in this proceeding and on-line service to the most U.S. cities. Delta also argues that its proposal would maximize market structure benefits by achieving U.S.-flag parity with Chinese-flag combination carriers. In this regard, Delta notes that three Chinese carriers operate combination services in the U.S.-China market, while only two U.S. carriers now operate such services.

In contrast, Delta states that UPS would not be a true new competitor in China since it offers viable service now through Hong Kong with multiple flights, and already provides express cargo service to 21 cities in China plus joint service with Sinotrans to an additional 108 cities; American would duplicate the Chicago-China service that United will provide; and, finally, that Polar's less than daily service in any market, all via Korea, would be a poor use of the one designation available.

Polar

Polar states that the passenger market is competitive, well served, and its projected growth can be satisfied without an additional air carrier designation. In this connection, Polar states that both Northwest and United can expand their capacity to China by offering nonstop service rather than one-stop service via Tokyo or by expanding their code-share service on Chinese carriers that have unused frequencies available. Thus, Polar argues that passenger capacity can be virtually doubled without a new designation or added combination frequencies.

Similarly, Polar states that the small package air express market is competitive, well served, and has been growing successfully although only the third largest participant is operating its own aircraft. In this regard, Polar notes that DHL leads the China small package express market without having any direct traffic rights to China. Coupled with FedEx's current service to China, Polar states that an award to UPS would concentrate U.S.-China all-cargo authority in the hands of the world's largest small-package express carriers, and would have a chilling effect on competition in the marketplace.

In comparison, Polar argues that the time-definite, airport-to-airport general air freight market is non-competitive, inadequately served and requires the designation of a new all-cargo air carrier to meet the existing and projected demand. Polar notes that no one contests that the international market for general air freight is far larger than the market for small-package air express shipments. Furthermore, Polar states that both FedEx and UPS serve the general air freight market only until they can fill their aircraft with their own vertically integrated product. Thus, Polar contends that a competitive air freight market cannot exist with both designations in the hands of integrated express specialists.

Polar states that its proposal is geared to the general air freight customer and will serve the principal air freight forwarder consolidation points for airborne imports and exports. It further argues that its service would offer these shippers their only regular, full-time U.S. carrier service option in the market.

UPS

UPS argues that the air express service proposed by UPS is crucial for the type of high-technology, high-value products that are vital to U.S. trade and continued U.S. leadership in the world market. In this regard, UPS states that its proposal would provide the greatest U.S. job growth and best improve the balance of trade between the U.S. and China. The express segment of the cargo market is important, according to UPS, because it is high-value traffic.² UPS asserts that these high-value U.S. exports reduce the trade deficit.

² UPS states that typical exports that UPS will carry to China include semiconductors, jewelry, chemical and electronic sensors, and medical products.

UPS maintains that the record in this case has demonstrated the need for additional U.S.-flag cargo capacity, based on the following: Chinese carriers are increasing all-cargo flights from seven to thirteen; U.S.-flag carriers have only one-third of the express cargo and freight capacity in the U.S.-China market; lower-deck cargo capacity on combination aircraft is not an adequate substitute for an air express/cargo carrier's services; Northwest states that air cargo demand is greater than capacity; and, finally, Northwest indicates that its all-cargo load factor on its two new all-cargo flights in the U.S.-Shanghai market was 82.6% in November and December of 1999 in the eastbound direction. In response to arguments that UPS already serves the Chinese market through Hong Kong, UPS states that prior decisions of the Department have established the need for an express air cargo carrier to have custodial control of shipments over the entire journey.³ UPS maintains that the extra time, extra miles, and extra connections all combine to undermine its current service to China via Hong Kong. While American and Polar have argued that DHL's market share proves that an express/cargo carrier need not operate direct flights to China, UPS contends that DHL carries almost exclusively letters and documents, which are better suited to belly cargo shipment.

UPS further argues that there is a real operational and competitive need for a second U.S. air express carrier to China, a more compelling need than adding a third U.S. passenger carrier. UPS states that the need for a second air express carrier goes to the need for competitive service that will result in more service options, innovations, and better overall service to shippers. UPS argues that the other applicants for the new designation in this case cannot meet the growing need for fully integrated express service. In particular, UPS argues that the time-definite services proposed by UPS promise to save U.S. businesses a wide array of supply-chain costs, in part by allowing manufacturers to avoid warehousing costs. With the right to fly to China, UPS states that it will be able to deliver virtually all time-definite shipments to and from China a full day faster than presently possible. This improvement would benefit importers and exporters by reducing daily ownership costs, accelerating sales revenue, and reducing physical inventory and back-order handling costs. Currently, UPS contends that shipments on UPS are slower than on FedEx on days that FedEx operates flights in the U.S.-China market. Today's U.S.-China market is effectively a "monopoly" market of FedEx, according to UPS.

Incumbent Carrier Applicants

Northwest

Northwest argues that the majority of the ten available frequencies should be awarded to all-cargo operations. Northwest bases this argument on the marginal value of expanding all-cargo capacity relative to the marginal value of expanding combination services and the divergent economic benefits associated with each, as well as the unique nature of the U.S.-China trade relationship. China is the second largest overseas trading partner of the United States, second only to Japan, whereas China is the 26th largest U.S. passenger market, behind Costa Rica,

³ UPS cites the *U.S.-Mirabel All-Cargo Proceeding*, Docket 47717, Order 92-8-7 and the *U.S.-Philippines All-Cargo Service Proceeding*, Docket OST-96-1074, Order 96-11-7.

according to Northwest. In light of the above, Northwest places its highest priority in this case on the receipt of two additional frequencies for all-cargo service.⁴

Northwest contends that, if there were open entry in the U.S.-China market, current market forces would stimulate and support additional all-cargo services for the following reasons: there is a severe shortage of air cargo capacity in the market; there is no direct competition in the express cargo market; and there is a pressing need for substantial amounts of new all-cargo service. In contrast, Northwest maintains that current market conditions would not induce new entry by combination carriers because the current and announced capacity in the passenger market will be sufficient to satisfy demand comfortably for years to come; there is a significant degree of competition in the passenger market (all four combination applicants compete in the market -- Northwest and United with direct service and American and Delta through code-share service on Chinese carriers); and, finally, the needs of the passenger market can be addressed incrementally through allocations to incumbent carriers.

In support of its contentions, Northwest notes that its new twice-weekly all-cargo service to Shanghai that began on November 1, 1999, averaged an 83% load factor by weight and nearly 100% load factor by volume in the eastbound direction (from Shanghai) during the first two months of service. With respect to the passenger market, as of April 1, 2001, Northwest notes that there will be 51 weekly combination flights in the market -- 32 by U.S. carriers and 19 by Chinese carriers and, moreover, 44 of the 51 will be operated nonstop. Overall, Northwest argues that adding a first competitor in the direct all-cargo market would provide more benefits than adding a third competitor in the direct combination market.

United

United states that, if the Department were to select either a new all-cargo carrier for six-days-per-week service or a new combination carrier for daily service, that would leave between three and four weekly frequencies for allocation. United argues that its proposal for some of these "residual" frequencies is superior to any other carrier's proposed use of residual frequencies. In this regard, United states that it would use only two frequencies to provide daily nonstop service in the San Francisco-Shanghai market, leaving sufficient frequencies for daily service by a new entrant carrier. By upgrading its San Francisco-Shanghai service to daily, United states that it would benefit more nonstop passengers and more total passengers than would any other carrier's proposal to use these residual frequencies for combination services.

United argues that its B747-400 aircraft would introduce more seats and cargo capacity per residual frequency than would any other combination carrier proposal; its daily service at San Francisco will offer important intragateway and intergateway competition with the foreign carriers that dominate the U.S. West Coast-China market; San Francisco is an excellent gateway to Shanghai since San Francisco is a United hub airport and is the second largest U.S. passenger

⁴ Northwest also requests three combination frequencies as a second priority. (See Appendix B)

market to Shanghai; and, finally, United's proposed service from San Francisco would provide better connections to more U.S.-China passengers than would other gateway cities.

United indicates that it plans to change from daily one-stop to daily nonstop service in the San Francisco-Beijing market in the summer of 2000. United asserts that it plans to further improve its U.S.-China services, reflecting the growth and development of the market. In addition to its proposal here, United maintains that it will institute daily nonstop service in the Chicago-Shanghai market on April 1, 2001.

Federal Express

Federal Express argues that the Department should grant FedEx's application because it would provide the greatest overall economic benefits to the United States. Moreover, FedEx states that the Department should broaden intergateway competition the U.S.-China market by selecting a U.S. air express/cargo carrier that would serve a wide range of Chinese cities.⁵ FedEx maintains that it would meet that goal by serving four cities in China (Beijing, Shanghai, Shenzhen, and Dalian) whereas other applicants would merely duplicate existing all-cargo service to Beijing and Shanghai. FedEx contends that its proposed new service to Dalian would provide substantial public benefits. It states that the province of Liaoning, where Dalian is located, is the home of 40 million people and 11.2% of Chinese technology exports, and Liaoning's share of technology imports is 4.5 times that of Beijing. FedEx emphasizes that UPS already competes for traffic in the U.S.-China market through Hong Kong. In addition, FedEx states that selecting UPS could increase the dominance of UPS' Chinese joint-venture partner over ground services within China, thus decreasing competition.

FedEx notes that its proposal would include stops in either Japan or Korea and at its Subic Bay hub in the Philippines, which would allow it to combine traffic flows for maximum efficiency and fully exploit the beyond-China rights on the all-cargo route of the U.S.-China aviation agreement. According to FedEx, no other applicant proposes to make significant use of the broad routing flexibility (*i.e.* intermediate and beyond rights) provided for under the U.S.-China agreement. Finally, FedEx states that it would afford shippers additional price and service options in the U.S.-China market.

Civic/Labor Parties:

The International Brotherhood of Teamsters (IBT) states that the demand for more U.S.-China cargo capacity will, particularly in the express area, far outstrip current capacity. If more capacity is not added, the IBT argues that U.S. exports to China will be constrained and that will result in reduced opportunities available to U.S. workers. The Union notes that it is advised that UPS service to China will create over 1,200 good-paying jobs subject to collective bargaining agreements. IBT further states that additional jobs covered by collective bargaining agreements

⁵ FedEx maintains that, by contrast, within the U.S., inter-and intra-gateway competition are irrelevant since U.S. all-cargo carriers have extensive hub-and-spoke systems, which ensure that nearly all U.S. shippers have immediate access to high quality service regardless of their domestic location.

will also be created throughout the economy -- the kind of jobs that will convince the American worker to support fair trade.

The Union asserts that it has a vital interest in ensuring that the U.S. government uses the limited authority to provide maximum benefits for workers and the economy. UPS is one applicant in this proceeding that is positioned to provide those maximum benefits, according to the Union. The IBT argues that, among UPS, Delta, and American, UPS is the only carrier that can spread the added economic benefits to workers throughout the United States. Finally, the IBT notes that its opposition to China's accession to the World Trade Organization (WTO) is irrelevant to the decision in this proceeding. Awarding the route to UPS would be the kind of trade action that IBT states it could and does support.

Los Angeles World Airports (LAWA) states that UPS' service would have a strong and direct impact on the economy of the Greater Los Angeles Region and Southern California as a whole. In particular, LAWA notes that the UPS proposal would create new jobs, helping additional Californians exit the welfare rolls, promoting commercial development, and building upon the strong economic ties between Southern California and China. LAWA contends that there is a growing need for express air cargo service between Southern California and China, as Southern California is an emerging center of e-commerce. Demand in this sector of the economy is likely to grow, according to LAWA, once China becomes a member of the WTO.

The City of Ontario states that UPS operates a large hub at Ontario and is the largest employer in the city with 2,700 employees at the airport, 7,000 throughout the community, and approximately 18,000 in the Greater Los Angeles area. In addition, the City of Ontario notes that Southern California has a compelling need for direct air express services to China due to its strategic location, unmatched volume of air exports, and strong cultural and economic ties to Asia and China.

The City of Ontario states that Ontario International Airport is an underutilized national air transportation asset. An award to UPS would convince firms to locate facilities in the region and that in turn, would make fuller use of the airport possible, according to the City of Ontario. Finally, the City of Ontario states that the region has a strong need for access to China due to the strong trade (measured by both value and weight) and large and growing base of companies that rely on just-in-time inventory and supply-chain management techniques that require access to China.

The Greater Rockford Airport Authority (Rockford) contends that an award to UPS will result in the largest estimated annual economic impact in both value and creation of new jobs. Furthermore, Rockford states that UPS will introduce competition in the integrated express market thereby benefiting Rockford and its surrounding communities.

The Regional Business Partnership (RBP) in Newark gives unconditional support to UPS' application because the RBP contends that the region's distribution/logistics, pharmaceuticals, high-tech, and finance industries will benefit from the additional direct integrated express service

proposed by UPS. An award to UPS has become critical to the RBP because of FedEx's decision to eliminate direct outbound service between Newark and China. RBP states that Delta and American do not have the experience, expertise, or lift capacity to handle the air express needs of the Northern New Jersey Region and China.

The City of Louisville and the Louisville Regional Airport Authority (Louisville) state that Louisville businesses and the community have been fostering positive relations with China for the last several years. Louisville notes that there are over 35 companies in the greater Louisville area, employing more than 18,000 people, actively exporting and importing products between Louisville and China. UPS' expansion of its international distribution network is essential, according to the City of Louisville, for the commercial future of Louisville's e-commerce companies (now numbering over 30) and for the economic growth of Louisville. Louisville asserts that, as logistical distribution methods continue to expand and mature, such as just-in-time-delivery, businesses will have an increasing need for the wide-range of services offered by UPS. In comparison, Louisville states that a passenger carrier's traditional airport-to-airport cargo service will not directly benefit the Louisville community.

State of Alaska and the Anchorage and Fairbanks International Airports (Alaska) support an award to a U.S. all-cargo carrier or carriers, because such an award will help U.S.-China trade to expand, stimulate the U.S. economy, create new jobs for both Alaska and the U.S., introduce new service options and lower prices, and address capacity and frequency imbalances between passengers/cargo and between U.S. and Chinese all-cargo carriers. With 31% of all jobs, Alaska notes that international cargo service is the single largest source of employment at Anchorage International Airport. Alaska argues that the Department should, through an award to all-cargo carriers, end Chinese domination of the all-cargo market. The issue, according to Alaska, involves whether the transshipment hub for U.S.-China cargo is going to be Hong Kong, Shanghai, Beijing, Tokyo, or Anchorage, Alaska. Alaska notes that, as a result of many factors, including the increased use of e-commerce and its effect on the international express/cargo industry, the dollar volume of cargo shipped by air is expected to triple by the year 2015. Alaska states that, in contrast to the proposals made by American and Delta, the proposed all-cargo services to China operated via Alaska will provide national, rather than merely local benefits.

The City of Chicago supports American's application to begin nonstop service between Chicago and Shanghai. In the event that American is awarded seven frequencies for daily Chicago-Shanghai nonstop service, the City of Chicago also supports the allocation of two of the three remaining frequencies to United. Such an outcome, according to Chicago, would enable daily competitive Chicago-Shanghai service. Chicago points out that, even though Illinois is home to companies doing millions of dollars in sales to China and is the third largest exporter to that country, currently there is no nonstop service between Chicago and Shanghai/Beijing. United's proposed Chicago-Shanghai services (April 2001) will not be redundant, according to Chicago. On the contrary, Chicago states that, if that happens, American's proposal will provide important intra-gateway competition at Chicago. Chicago maintains that its geographic location permits American to serve a larger catchment area than would be the case with service from New York,

thus permitting American to benefit the greatest number of passengers from any U.S. city to Shanghai and Beijing.

The Cincinnati/Northern Kentucky Parties (CVG Parties) state that the Greater Cincinnati Metropolitan Area (GCMA) represents a substantial source of passenger and cargo traffic between the central U.S. and China; that improved access to China would provide substantial benefits to the area's passengers and shippers; and that new service would begin to correct the gap in air service between the GCMA and China. The CVG Parties assert that, due to its centralized location, the GCMA is capable of supporting Delta's proposed China service. In this connection, the CVG Parties note that 53% of U.S. manufacturers are located within one hour's flight-time of the CVG airport.

Wayne County, Michigan and the Detroit Metropolitan Area Wayne County Airport (Detroit) request that UPS be designated as the new U.S.-China carrier with seven of the ten frequencies available, and that the remaining three be allotted to Northwest to enable it to expand its Detroit-China service. Wayne County argues that, due to increased trade between their respective auto industries, business between Shanghai and Michigan is growing. Currently, it says at least twelve Michigan-headquartered auto-related businesses are operating in Shanghai. Wayne County contends that this linkage will be strengthened by the expansion of Northwest's combination and cargo service and UPS' introduction of new services. Finally, Wayne County states that, given Detroit's proximity to Chicago (237 miles), and its almost identical catchment area as that of Chicago, American's case for serving Chicago-China is weak.

The City and County of San Francisco state that there is a need for a daily nonstop China service from the San Francisco Bay Area. San Francisco notes that California is the nation's largest origin and destination market to China, and demand for passenger and cargo in this market exceeds the combined demand of the others in this proceeding. In addition, San Francisco states that U.S.-China high-tech trade is focused on the Bay Area, representing 29% of the total, and accounting for \$2.2 billion in air trade annually; that the Bay Area enjoys a strong market for leisurely and family travel to China because, among other things, San Francisco is home to the largest and growing Chinese-American community in the U.S.; and, finally, that San Francisco is perfectly located to serve the entire West Coast, the most extensive U.S. market to China.

The FedEx Pilots Association states that its members have experienced first-hand the explosive growth and great potential of the U.S.-China market. The FPA argues that an award to FedEx would spur competition in the U.S. economy and create good jobs, which provide the foundation for strong U.S. communities. In this connection, the FPA states that China's demand for America's products and technological assistance continues to rise and that the Department should choose FedEx, which is in the best position to help U.S. businesses meet this demand.